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MICHIGAN STATE REPRESENTATIVE

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December 7, 2005

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CHAIRMAN  
COMMITTEE  
ON NATURAL  
RESOURCES,  
GREAT LAKES,  
LAND USE  
AND  
ENVIRONMENT

Representative Mike Nofs  
Chairman, Energy and Technology Committee  
124 N. Capitol Avenue  
Lansing, Michigan 48909

MEMBER:  
COMMITTEE  
ON BANKING  
AND  
FINANCIAL  
SERVICES

Dear Chairman Nofs:

The subcommittee on Energy met several times throughout the spring to hear testimony regarding Renewable Energy Portfolio Standards and Electric Reliability Standards in Michigan. Over the course of the eight hearings, subcommittee members were able to hear testimony from a wide variety of experts on the aforementioned subjects. As you would expect many questions were generated during these meetings which I believe is reflective of the complexity of these important issues.

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ENERGY AND  
TECHNOLOGY  
COMMITTEE

Testimony was received from the Michigan Public Service Commission, Next Energy, Lansing Board of Water and Light, DTE Energy, Upper Peninsula Power Company, Consumers Energy, Michigan Environmental Council, WE Energy, American Electric Power, PJM Interconnection, Michigan Electric Cooperative Association, Ford Motor Company, and the Association of Businesses Advocating Tariff Equity (ABATE).

REGULATORY  
REFORM  
COMMITTEE

### **Renewable Energy Portfolio Standards (RPS)**

The area of renewable energy was thoroughly explored during the hearings. The Michigan Public Service Commission presented its annual report, "Michigan Renewable Energy Program". The following are some of the general questions that were generated from the report:

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MANISTEE  
AND MASON

- What constitutes "renewable resources"?
- What percentage does renewable energy represent of total electric generation in Michigan?
- What are the most favored options among renewable energy technologies in Michigan?
- What is net metering?
- What are green pricing programs?
- What are the barriers to renewable energy development in Michigan?

I encourage members of the full committee to review the report, specifically the report dated November 18, 2003 (corrected version: September 2004).

The implementation of Renewable Portfolio Standards (RPS) is a policy decision that deserves full debate. There are costs and benefits to such an approach but we should not lose focus on our goal which is to increase the percentage of renewable energy in Michigan's energy portfolio. An RPS is a means to achieving that policy goal but there are other alternatives that should also be explored. There are several "Green Pricing" programs in Michigan. "Green Pricing" is simply offering "Green" energy at a 'premium' price or rather a price that is reflective of the cost to produce it. We should pursue policies that improve "Green Pricing" programs throughout Michigan. We must also pursue policies that provide incentives both in the production and consumption of renewable energy in our state. Those incentives should be both financial (tax incentives) and also through lessening regulatory burdens on renewable energy technology.

### **Electrical Reliability Standards**

Since the 2003 Blackout, reliability standards have taken on a greater importance to industry, regulators, and the general public. The subcommittee learned that there are three types of reliability: Reliable Generation, Reliable Transmission, and Reliable Distribution. The Michigan Public Service Commission outlined the goals of PA 141 of 2000:

- Provide choice of electric suppliers
- Maintain protection for customers
- Ensure electric power in Michigan is safe, reliable, and affordable
- Encourage development of new generation
- Promote financially healthy and competitive Michigan utilities
- Use refinancing (securitization) to lower costs
- Expand Transmission

Prior to PA 141 of 2000

- By June 2000, reserve margin had declined to less than 5% from 15% target (summer reliability in doubt)
- No base load generating plants built in Michigan for 15 years
- Only voluntary transmission reliability standards
- No enforceable distribution standards

Electric reliability required by PA 141 of 2000:

- Development of Merchant plants
- Upgrade of transmission systems
- Join regional transmission organization or divest transmission to independent company
- Adoption of enforceable standards on service quality and reliability for electric distribution systems

PA 141 made new generation improvements and reliability was improved through new merchant plants, increased import transmission capacity, Consumers Energy and DTE joining a regional

transmission organization (RTO) and electric service quality and reliability standards were formally adopted.

We are faced with the perplexing problem: What is the appropriate reserve margin level that will lead to reliability but does not adversely affect the price of electricity?

In conclusion, Renewable Portfolio Standards and Electric Reliability Standards are complex policy questions that we should pursue at the beginning of next year. As you know, Mr. Chairman, the Michigan Public Service Commission is currently undergoing a process that is known as the Capacity Needs Forum and we are expecting a report in the coming weeks. It is my hope that the report we provide policymakers a roadmap to what is needed in the way of capacity in Michigan. I concur with Senator Patterson's conclusion that Michigan needs a long range energy strategy that addresses affordable prices, reliability, and a long term commitment in building for the future. The members of the subcommittee and I stand ready to assist you and the full committee in this endeavor.

Respectfully,

A handwritten signature in dark ink, appearing to read "David Palsrok", with a long horizontal flourish extending to the right.

David Palsrok  
Chairman Subcommittee on Energy